



City of Danville, Virginia

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Honorable Mayor and Members of City Council

We are living in challenging times, where a troubled economy, rising unemployment, falling home prices, and a lack of consumer confidence have gripped our community and propelled our nation into a recession. These events have resulted in significantly declining local government revenues that have led to budgetary issues across the Commonwealth and have impacted services in other Virginia localities. The Commonwealth of Virginia faced a \$3.7 billion revenue shortfall at the beginning of this year's General Assembly session and the proposed cuts in state spending would have directly impacted state funding to local governments. However, as a result of the American Recovery and Reinvestment Act, many of the proposed cuts to law enforcement and constitutional offices were avoided. State funding cuts to K-12 education have also been reduced dramatically as Danville Public Schools will see an infusion of federal stimulus funds. The American Recovery and Reinvestment Act has also brought in additional federal CDBG funding through the Department of Housing and Urban Development. Though this funding does help currently, we understand it will not provide a long-term, guaranteed fix.

During periods of extreme economic stress, a community's less advantaged citizens are most reliant on the services of their local government. In many cases the local government is their relief of last resort. Because of our population makeup, there are few communities in Virginia where this is more true than Danville.

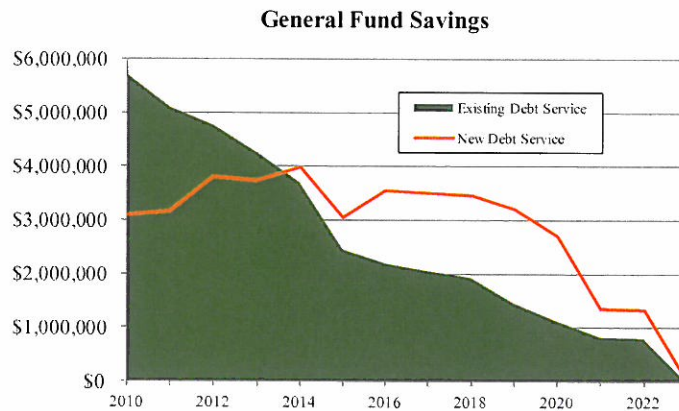
In an attempt to maintain these critical service levels, to the degree possible, the City's 2010 Adopted Budget has been prepared. This approach results in no increase in our current utility rates and no increase in our broad based tax applications (real estate and personal property). It does include major debt restructuring for both the 2010 and 2011 fiscal periods and directed tax increases in such discretionary areas as lodging and restaurant meals. The budget also includes selected fee increases in areas where the payer is a direct beneficiary of the particular service.

The debt restructure in the General Fund is anticipated to generate a \$2.6 million* cash flow savings for fiscal year 2010 and an estimated \$1.9 million† in fiscal year 2011, at which point it is hoped the economy will show some recovery. The restructure does not extend the final

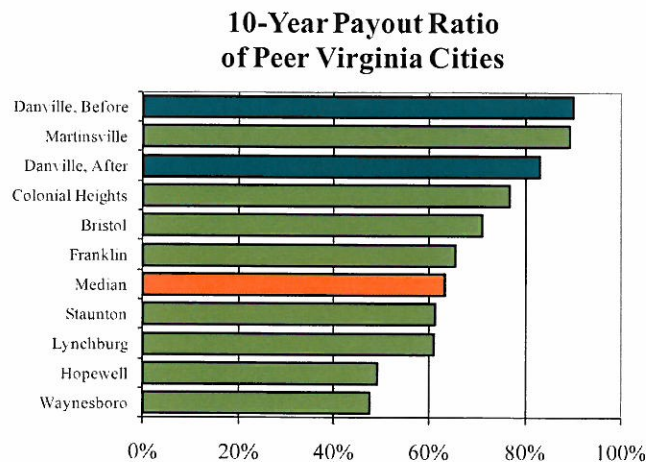
* Cash flow savings are shown net of all issuance cost and are preliminary and subject to market conditions.

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maturity date for existing City debt. Cash flow savings tax equivalent impact (savings equated to pennies on tax rate) is estimated to be 12 cents for fiscal year 2010 and 9 cents for fiscal year 2011[‡].



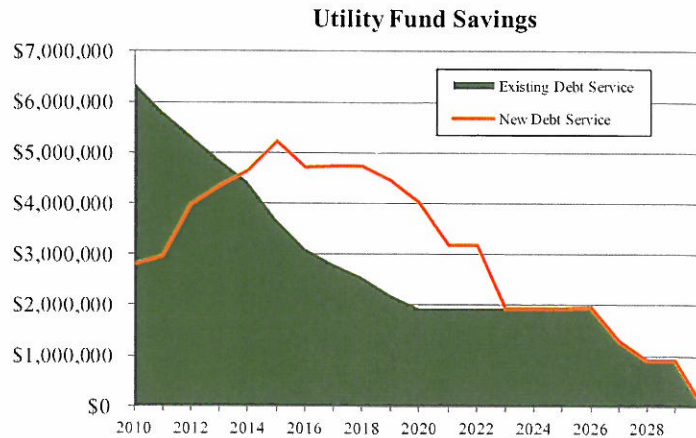
As a result of the restructuring, the 10-year payout ratio is well above the median and national average of 60%. The following chart depicts Danville's payout ratio, both before and after the restructure, in relation to peer Virginia cities.



Debt restructure in the Utility Fund is expected to generate a cash flow savings of \$3.5 million in fiscal year 2010.[§] The restructuring of debt will help stabilize rates; thereby avoiding rate increases in a difficult economic environment. This will allow the City to continue with infrastructure improvements that will preserve the City's ability to attract commercial and industrial investments in our community.

[‡] Based on a penny equivalent of \$225,000.

[§] Cash flow savings are shown net of all issuance cost and are preliminary and subject to market conditions.



The restructure in the Utility Funds is expected to produce a cash flow savings for fiscal year 2011 and 2012 of \$2.8 million^{**} and \$1.3 million^{††}, respectively. For future years, debt service on existing debt remains below debt service for the current year (fiscal year 2009). The restructure does not extend the final maturity date for existing debt in Utility Funds. As a result of the restructuring, the 10-year payout ratio is estimated to be 67%, still well above the national average.

Following are the major components that make up the FY 2010 Adopted Budget.

^{**} Cash flow savings are shown net of all issuance cost and are preliminary and subject to market conditions.

^{††} Cash flow savings are shown net of all issuance cost and are preliminary and subject to market conditions.

GENERAL FUND – Total General Fund Budget is \$100,753,093 a 6.28% decrease from FY 2009.

Revenues – The increases(decreases) identified in the following major revenue areas are:

		Bullet Page No.
General Property Taxes:		
Personal Property Taxes	\$ (1,500,000)	vi
Machinery & Tools Taxes	(500,000)	vi
Other Local Taxes:.....		
Sales Tax.....	(700,000)	vi
Meals Tax		
Decrease FY 09 to FY 10.....	(300,000)	vi
Recommended 1% Meals Tax Increase.....	1,020,000	vii
Business, Professional & Occupation Licenses	(1,000,000)	vi
Recordation Taxes	(150,000)	
Hotel/Motel Room Taxes		
Decrease FY 09 to FY 10.....	(60,000)	
Recommended 3% Tax Increase.....	375,000	viii
Auto Licenses	50,000	
Bank Stock Taxes	50,000	
License, Permits, Privilege Fees		
Decrease FY 09 to FY 10.....	(29,150)	
Recommended Fee Increases	27,520	viii
Recoveries & Rebates	361,338	
State Aid:		
Categorical aid – Shared Expenses (Constitutional Offices).....	(121,467)	
Welfare Administration & Public Assistance	(174,698)	
Street & Highway Maintenance.....	368,484	
Non-Categorical Aid (599 Funds)	(120,557)	
Juvenile Justice Block Grant (W.W. Moore).....	(87,732)	
Other Revenue Areas	<u>32,001</u>	
Total Revenues.....	\$ (2,459,261)	
Transfer from Fund Balance	<u>(4,290,000)</u>	
Total Revenues and Transfer from Fund Balance	<u>\$ (6,749,261)</u>	-6.28%

Expenditures - Changes in major expenditure areas are summarized as follows:

		Bullet Page No.
Salaries (Full-time, Part-time, and Overtime).....	\$ (327,277)	
Group Health Insurance	115,559	
Social Service Programs	(211,363)	xiii
Transfer to Capital Projects	(620,833)	
Transfers to Special Grants (CSA)	470,000	
Utilities.....	(146,592)	x
Debt Service.....		
Bond Restructuring.....	(2,620,000)	
Debt Savings 09 to 10		
General Fund Bond Maturities.....	(152,607)	
General Fund Bond Interest	(57,658)	
School Bond Maturities	(114,348)	
School Bond Interest.....	(87,715)	
Economic Development Incentives	(3,514,650)	xiii
Maintenance Service Contracts.....	169,143	xiv
Contractors (VDOT Expenditures \$360,000), (PRT \$40,000)	400,000	
Outside Purchased Services	(92,279)	
All Other Expenditure Areas	<u>41,359</u>	
Total Decrease	\$ (6,749,261)	

In Danville, we have seen a decrease in some local taxes, particularly in property taxes (Real Estate, Personal Property, and Machinery & Tools), meals taxes, business, professional, and occupational licenses, and sales taxes. We took this decrease into account as we created the FY 2010 Adopted Budget for the next fiscal year. Below is a discussion of changes in revenue.

General Property Taxes

Real Estate Taxes The total estimated revenue for FY 2010 remains at the same level as FY 2009 at \$15,000,000. This is due to a decrease in new construction and a concern that new owners of former textile and tobacco processing facilities may petition for a decrease in assessed values. These properties were sold at below the current assessed value in what would be considered an arms length transaction. The assessor believes the assessed values are correct, but the sellers sold at bargain prices.

Personal Property Taxes The total estimated revenue for FY 2010 is projected to be \$7,200,000, a decrease \$1,500,000 from the FY 2009 projection of \$8,700,000. The FY 2010 projection represents a 16.7% decrease. The Commissioner of Revenue reports that many localities in Virginia are expecting a 17% decrease in their assessment. This is a result of fewer new vehicles being purchased and a decrease in value for vehicles that are not fuel-efficient.

Machinery and Tools Taxes The total estimated revenue for FY 2010 is projected to be \$1,000,000, a decrease of \$500,000 from the FY 2009 projection of \$1,500,000. This decrease is related to the number of manufacturing employers located in the City that have closed or significantly reduced assets.

Other Local Taxes

Prepared Meals Taxes We anticipate closing FY 2009 with \$5,120,000 in revenue, a \$280,000 shortfall from the budgeted meals tax of \$5,400,000. A 1% increase in the meals tax is included in the adopted budget, increasing the rate from 5% to 6%. This is expected to generate an additional \$1,120,000 in revenue that would be realized at the current rate – or a \$720,000 increase from the 2009 budget.

Sales Taxes The total estimated revenue for FY 2010 is projected to be \$7,700,000, a decrease of \$700,000 from the FY 2009 projection of \$8,400,000. We do not expect the economic recovery to improve substantially in FY 2010, therefore the budgeted sales tax for 2010 remains level with what we expect to realize in FY 2009 – yielding a \$700,000 reduction in budget.

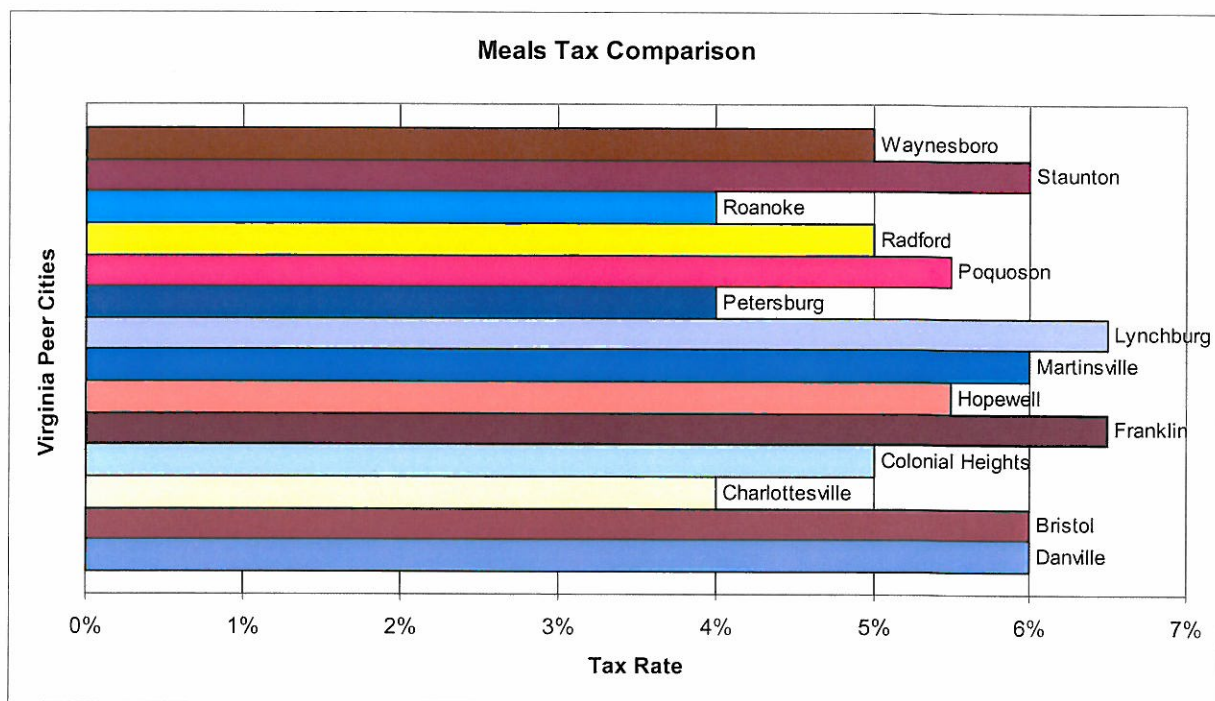
Business, Professional, & Occupational Licenses The total estimated revenue for Business, Professional, and Occupational Licenses for FY 2010 is projected to be \$4,400,000, a decrease of \$1,000,000 from the FY 2009 projection of \$5,400,000. Fewer sales generate smaller gross receipts, which is the basis for the BPOL tax.

Though we are seeing shrinking revenues, because of the City's sound financial planning and decisions made during previous fiscal years, the City is much better off than most localities in the Commonwealth.

The Adopted Budget does include some increases in fees and taxes. The two tax increases are to the Meals Tax and the Transient Occupancy Tax. These two areas were chosen as they reflect discretionary spending and do not broadly affect the tax base. These changes will put us on par with our peer localities in Virginia. Furthermore, there is no increases in property taxes or utility rates, both of which broadly affect our tax base.

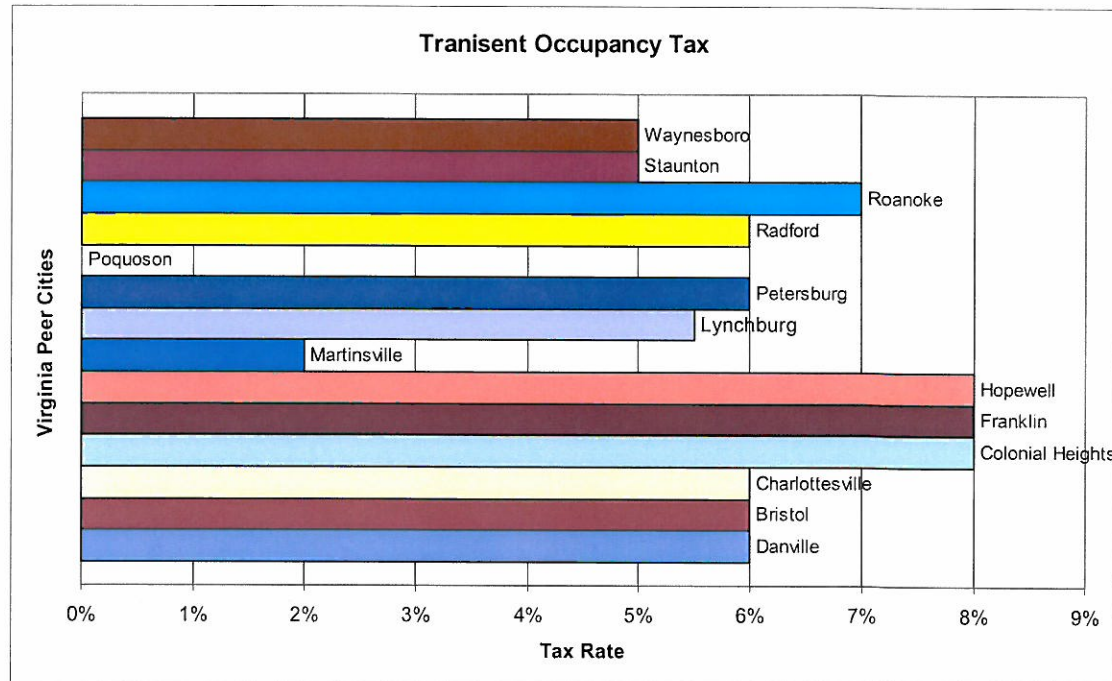
There are also new fees as well as fee increases in the Community Development department related to inspections and planning. In the Courts, there are increases as well as a new Probate Tax. Finally, Public Works has a new fee in regards to street closures for private/community events.

Prepared Meals Tax The meals tax is a user fee in the form of a flat tax imposed on the price of a meal. The current rate in the City of Danville is 6%, an increase of 1% from the last fiscal year. A comparison chart is provided showing what our peer localities levied in FY 2009 with Danville's new rate. This increase will bring our FY 2010 projected revenue to \$6,120,000, an increase \$720,000 over the FY 2009 projection.



Transient Occupancy Tax The Transient Occupancy Tax is a flat percentage imposed on the charge for the occupancy of any room or space in hotels, motels, boarding houses, travel campgrounds, and other facilities providing lodging for less than 30 days. The current rate for

the City of Danville is 6%, an increase of 3% from the last fiscal year. A comparison chart is provided showing what our peer localities levied in FY 2009 with Danville's new rate. This increase will bring our FY 2010 projected revenue to \$750,000, an increase of \$315,000 over the FY 2009 projection.



Community Development The Community Development Department charges fees for certain services it provides to customers. These fees are designed to help recoup a portion of the costs of providing services not usually shared by all citizens. Fees are collected by the Inspections Division for construction permits (building, mechanical, plumbing, cross connection, etc.) as well as by the Planning Division for items such as Rezoning, Special Use Permits and Board of Zoning Appeals cases.

The fees charged by the Inspections Division have been updated. Previously, the fees collected only covered approximately 25% of the cost of services provided. A comparison chart is provided showing what other localities within the Commonwealth charged in FY 2009 to provide the same services. It should be noted that Danville's fees are still low in comparison to other localities, and that the costs charged will still be below the cost associated with providing the service. Two new fees are included in the FY 2010 Adopted Budget. The first is for the issuance of Temporary/Permanent Certificates of Occupancy and the second is for change of use surveys.

	Danville Adopted	Lynchburg	Roanoke	Portsmouth	Martinsville	Fredericksburg	Charlottesville	Petersburg	Harrisonburg	Richmond	Pitt. Co
Min. Permit Fees	\$30	\$40	\$45	\$25	\$40.70	\$200 - \$250	\$50 - \$75	\$25 - \$75	\$50	\$61.50 - \$121.19	\$25-\$40
Min. Plan Review Fees	\$30	10% of Building Fees	10% of Building Fees	\$25 - \$200	\$0	25% of permit fee, or min. of \$50	\$1300 - \$1800	\$0	\$100	Fee incorporated into permit fees	\$10-\$25
Demo	\$50	\$250 - \$400	\$45	\$25 - \$100	.06 per sq. foot	\$200	\$50 - \$250	\$25 - \$75	\$50	\$175 - \$350	\$25
Moving Mobile Home	\$75	\$75 - \$100	\$75 - \$125	\$30 - \$35	\$75 - \$150	\$100	\$100	\$25 - \$75	\$150	\$0	\$20- .08 per sq ft
Perm. C.O.	\$30	\$0	\$30	\$0	\$0	\$50	\$60 - \$125	\$0	\$75	\$250	\$0
Temp. C.O.	\$30	\$0	\$45	\$0	\$0	\$50	\$50	\$0	\$70 - \$150	\$0	\$0
Change of Use	\$25	\$0	\$30	\$0	\$0	\$100	\$0	\$0	\$0	\$0	\$0
Elevator Fees	\$0	\$42 every six months	\$25 every six months	\$0	\$0	\$0	\$0	\$0	\$0	\$150 - \$200	\$25
Code Modification Request	\$0	\$0	\$0	\$0	\$0	\$100	\$0	\$0	\$0	\$100	\$0

The fees charged by the Planning Division have been updated. A comparison chart is provided showing what other localities within the Commonwealth charged in FY 2009 to provide the same services. It should be noted that Danville's fees are still low in comparison to other localities, and the costs charged will still be below the cost associated with providing the service. Two new fees are included in the FY 2010 Adopted Budget. The first is for the processing of request for the Commission of Architectural Review and the second is a zoning clearance fee.

	Danville Adopted	Lynchburg	Roanoke	Portsmouth	Martinsville	Fredericksburg	Charlottesville	Petersburg	Harrisonburg	Richmond	Pitt. Co
RZ/SUP	\$350	\$400 + \$75 per acre	\$900 + \$25 per acre	\$880 (RZ) / \$660 (SUP)	\$200	\$1,000	\$1,500	\$200	\$325 + \$25 per acre	\$825 (RZ) / \$1,650 (SUP) + \$110 per acre	\$125
BZA	\$200	\$400	\$190	\$200	\$200	\$300	\$250	\$50	\$250	\$500	\$125
ZONING CLEARANCE	\$10	\$0	\$25	\$0	\$0	\$0	\$50	\$0	\$50	\$50 - \$100	\$0
CAR	\$25	\$0	\$0	\$0; \$250-\$1,000 if work done prior to approval	\$0	\$50 existing / \$100 new	\$350 new constr / \$100 all other requests	\$0	\$0	\$0	\$0

Court Fees There are two fee increases as well as a new fee that would aid the Courts function within the City of Danville as well as generate new revenue.

In FY 2009, the courts collected a \$1 fee on each civil action filed that goes toward the construction, renovation, or maintenance of courthouse or jail facilities and court-related facilities and to defray increases in the cost of heating, cooling, electricity, and ordinary maintenance. The FY 2010 Adopted Budget includes a \$1 increase, bringing the total fee to \$2, an increase of \$20,000 over the FY 2009 projection.

The second fee increase is assessed on each civil action filed in the City of Danville. In FY 2009, a \$3 fee was assessed in support of the Law Library for the acquisition of law books, law periodicals, computer-based legal research services, and any necessary equipment for use by the public. The funding from this fee also supports a law librarian to aid in research. The revenue from this fee would ideally support the entire Law Library operation, but rising costs have made

this difficult. The Virginia statute allowing for this fee imposition states that the fee can be no more than \$4 per action filed. The FY 2010 Adopted Budget includes a \$1 increase, bringing the total fee to \$4, an increase of \$3000 over the current year's projection.

Finally, the FY 2010 Adopted Budget includes the institution of a Probate Tax. This new tax on the probate of every will or grant of administration will be in an amount equal to one-third of the amount of the state tax on such probate of a will or grant of administration. This new fee will bring \$15,000 in new revenue.

Public Works There is one new fee in Public Works that has an impact on the General Fund. The FY 2010 Adopted Budget includes a Block Party/Road Closure fee. Most block parties and events are done after hours and/or on weekends. As a result, the event causes numerous hours of regular time and overtime to be incurred for placing barricades, road closures, and detours. This fee is intended to recapture the cost from the event organizer instead of placing the burden on taxpayers. A fee of \$75 per permit application is included, which will result in \$750 in new revenue.

UTILITIES

The FY 2010 Adopted Budget includes operating expenditures (less depreciation) of nearly \$150 million in the Wastewater, Water, Gas, Electric, and Telecommunications Funds and \$21.3 million for capital projects. The budget is based on projected revenues from the current biennial rate review. It is a "Stay the Course" budget in terms of both operations and capital projects.

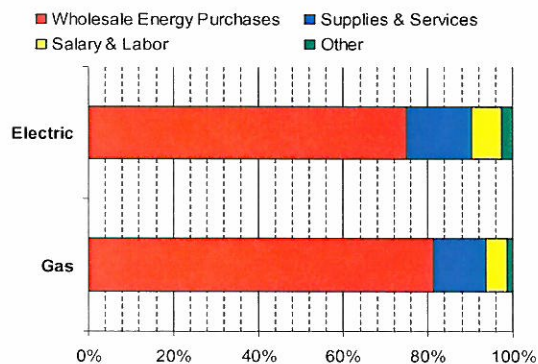
The following factors affect budget accounts in all five funds:

- Salary, wage, and income-based benefit expense impacts of continued implementation of pay and classification system improvements and gradual expansion of the Department's employee career development and apprenticeship programs affect all program budgets.
- Transfers to the General Fund from all five utility funds are budgeted at \$13.7 million, unchanged from current FY 2009 levels.
- Higher assessments are charged by the General Fund for various administrative services, vehicle maintenance, insurance, retirement, and depreciation.**

** Depreciation is a balance sheet account, not an actual cash expense.

As illustrated in the chart to the right, after considering the cost of energy, transfers to the General Fund, and allocations to the General Fund for overhead services, relatively small parts of the Electric and Gas Funds can be influenced by budget review decisions. Fixed costs associated with the operation of water and wastewater treatment facilities similarly eliminate budgeting flexibility in affected funds.

Expenditures by Category



Nonetheless, great care has been taken in review of the FY 2010 Adopted Budget to support economic development while enabling the delivery of reliable utility services at the lowest rates possible. We have accepted that higher energy prices and the uncertainties of energy deregulation and globalization, however unfortunate and offensive, are here to stay. The budget stays the course in keeping with the Department's five-year financial management strategy.

Declining Service Demand We have struggled over recent years dealing with the substantial loss of industrial customer demand in water, sewer, and gas services resulting from Danville's economic transition from tobacco and textile industries and the current global recession. Because most large industries experiencing downsizing or closure have been Appalachian Power customers, Danville Utilities' electric service levels have not been similarly affected. Newly recruited and expanded industries have not yet generated utility service demands originally predicted. There was a slight additional decline in our customer base and consumption in electric and gas last year. Demand for all utility services will therefore likely remain flat over the next few years.

Numbers of customer accounts scale of operations, and array of infrastructure fixtures and equipment have not declined along with reductions in total service demand. Consequently, it has not been possible to proportionately reduce staffing and operating costs. Costs spread across fewer units of output are consequently pressuring utility rates. Adding to this challenge has been reduced energy consumption effects of four years of mild winters.

The Department's efforts to respond to this situation include a variety of productivity and asset management improvements. In FY 2007, we entered a prepaid gas contract with MuniGas that will ensure lower than market prices for wholesale gas purchases. We are also participating in three power generation projects through AMP-Ohio that should help stabilize future electric

rates. Wholesale costs for electricity and natural gas are expected to stabilize in FY 2010. Our MuniGas wholesale discount will be lower than in FY 2008 and FY 2009, but will likely average 50¢ per dekatherm.

Staffing The FY 2010 budget includes funds to continue to implement the Department's employee career development and apprenticeship programs as they are gradually expanded to cover additional job classifications. This will make Danville Utilities more competitive in recruiting new employees into hard to fill position vacancies.

Capital Improvements The five-year Capital Improvements Plan includes continuing infrastructure improvements in wastewater, water, gas, electric, and telecommunications with a total of \$ 21.3 million in FY 2010 spending. The Wastewater Treatment Plant's diversion basin liner will be installed in 2010. It was delayed for two years while funds were set aside for the project. The annual cast iron and steel natural gas pipeline replacement project in the Gas Fund continues to be funded at the current level of \$1.5 million. Construction of the Cane Creek Electric Transmission Line will be the final project in the eastern section of Danville Utilities' service territory and provide improved reliability. The Advanced Metering Infrastructure (AMI) project began in 2009 and will require additional funding in 2010 to complete its fourteen-month implementation. Also in 2010, renovations to the Monument Street Utility Service Center will begin with consolidation of Water & Gas and Power & Light engineering functions in a one-stop facility on Goodyear Boulevard. Telecommunications will deploy two fiber-to-the-home pilot projects, one in the City and one in the County.

PERSONNEL CHANGES

The number of fulltime authorized positions has decreased one fulltime position as noted below. Additionally, there are a number of reclassifications currently being evaluated by Human Resources.

Central Services Fund – eliminate a vacant fulltime Print Shop Clerk for a part-time Print Shop Clerk.

BALANCING THE BUDGET

Much of the challenge in developing the FY 2010 Adopted Budget was balancing revenues and expenditures as well using funds we knew were going to be one-time revenues. As the economy continues to struggle, it becomes increasingly difficult to predict futures revenues. As a result, particular attention was given to expenditures. Our department directors understand these challenges and have been exceptional stewards during the budget process. A situation like this has presented an opportunity to reevaluate our services to the public and create greater efficiency.

At the beginning of the budget process, each department director and constitutional office was given a target. This target was calculated by taking their FY 2009 budget and subtracting salaries, benefits, motor pool fees, or other fixed costs, resulting in a figure that represent the

department's discretionary funding. Department directors and constitutional offices then went through two rounds of cuts to further pare down the figures.

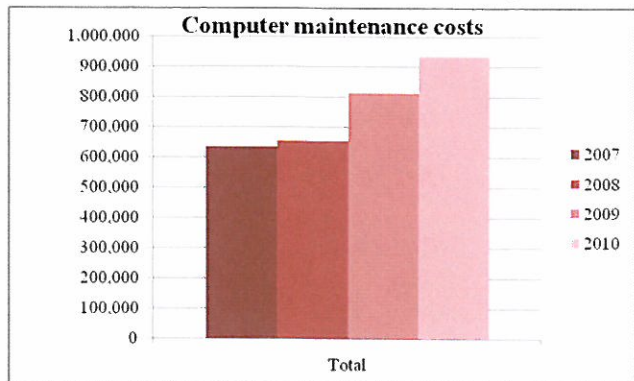
In addition to the major items already discussed, here are some highlights from the FY 2010 Adopted Budget:

- There are no pay increases for City employees;
- The Adopted Budget has minimal impact on current City services. The public should not see reduced support from its local government during these exceptional times;
- Funding support for Danville Public Schools will remain level;
- The Regional Airport has eliminated the Air Show;
- Travel and training expenses have been reduced citywide for a savings of over \$77,000;
- Books and subscriptions expenses have been reduced citywide for a savings of over \$85,500;
- Materials and supplies have been reduced more than \$55,500;
- Uniforms and Apparel expenses, particularly for the Sheriff's Office and the Danville Police Department, have been reduced more than \$22,500;
- The Human Resources Department has eliminated the Service Awards dinner, the Retiree Breakfast, and the Employee Night at the Danville Braves game;
- The City Manager's Office has evaluated its memberships to organizations and has eliminated participation in the National League of Cities and Virginia First Cities for a savings of over \$21,000; and
- Social Services expenditures have decreased over \$211,000 and the corresponding revenues decreased over \$216,000. Most programs are reimbursed at 84.5% by the State, but a few are funded 100% by the State or locality; therefore, the amount of the decrease in both revenues and expenditures is different.

There have also been significant changes to the following areas:

Economic Development Incentives In FY 2009, \$4,290,000 was appropriated for economic development incentives from Fund Balance. These previously agreed upon incentives were based on standing performance agreements. For FY 2010, we have included \$775,350 in economic development incentives – a continuation of the performance commitments – and plan to fund it from FY 2010 current revenues, not Fund Balance.

Maintenance Service Contracts The IT computer maintenance budget will realize a 15 percent increase from the 2009 budgeted amount of \$814,340 to an expected 2010 amount of \$936,948. Six new systems were added in FY 2009 to help improve operational efficiency. This accounted for \$151,773. IT was able to realize a \$29,165 cost savings of existing maintenance support agreements through contract negotiations and reduction of system requirements. As maintenance costs continue to increase at an average rate of 3-4 percent annually, IT will face challenges in trying to stabilize these costs.



SUMMARY

Though these are uncertain times, we must continue to focus on our future. Compared to other localities in Virginia, we are much better off during this time of duress, and we will continue our practice of spending wisely and evaluating the long-term impacts of our current-day decisions. As our community and nation struggles to right itself economically, I feel this budget assures us better standing both in the present and for the future.

Respectfully,

M. Lyle Lacy, III
City Manager